

If these objectives are not achieved, the United States should impose a border tax on goods from nations that assess them against U.S. exports. A possible variation of this action would be to adopt a sliding scale border tax which will vary with the balance of payments of the United States.

Perhaps a temporary surcharge should be placed on imports also. This impediment would be understood by the other countries of the world as a temporary expedient to solve a serious balance-of-payments problem. The same rationale was used by Britain and Canada in the past and accepted by the other trading nations without retaliation. We believe it important that such a surcharge not be applied to essential raw materials in which the United States is not self-sufficient.

Related to these matters and within the purview of these hearings is the question of measures which would improve the U.S. balance-of-payments position. One of the most important of these measures is that relating to direct investment abroad by U.S. companies. Between 1965 and 1968, investments abroad were under a voluntary program designed to diminish the outflow of capital and encourage the inflow of earnings to a degree that the U.S. balance-of-payments position would be strengthened. It is a matter of record that the chemical industry observed completely the spirit of the voluntary program.

With the worsening of the U.S. balance of payments, the President on January 1, 1968, proclaimed a mandatory investment control and earnings repatriation program in an Executive order. This industry believes that these mandatory controls will worsen instead of improve the U.S. balance of payments. The earnings returned to the United States from investment abroad is clearly in excess of the outflow of capital. This committee already has extensive data which documents this fact. That data will not be repeated here.

While we must agree that mandatory controls will hold down outflow at the same time inflow of earnings remains high, this combination of factors will persist for only a short time. The lack of new investment by U.S. firms abroad will in a short time result in a deterioration of a return of earnings which in fact are badly needed to achieve a balance-of-payments surplus.

There are many inequities in the present regulations and controls. We are trying to correct these through representations to the Foreign Investment Control Office of the Department of Commerce.

We believe, however, that it is important for the Congress to know that the mandatory controls will increasingly work to the disadvantage of the United States in achieving a balance-of-payments surplus.

Thank you, Mr. Chairman.

After the other speakers I will be happy to try to answer questions. (Mr. Gerstacker's prepared statement follows:)

STATEMENT OF CARL GERSTACKER, CHAIRMAN OF THE BOARD, MANUFACTURING CHEMISTS ASSOCIATION

I. INTRODUCTION

The Manufacturing Chemists Association is a nonprofit trade association of 181 United States and 12 Canadian company members representing more than 90 percent of the productive capacity of basic industrial chemicals within these countries. These producers serve all the major industry categories listed in the Standard Industrial Classification. Thus, the chemical industry contributes to all industrial progress and to every segment of our society.